

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-10 NEA-09 ISO-00 FEA-01 ERDA-07

AID-05 CEA-01 CIAE-00 CIEP-02 COME-00 DODE-00 FPC-01

H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03

SAM-01 OES-05 SP-02 SS-15 STR-04 TRSE-00 FRB-01 PA-02

USIA-15 PRS-01 /127 W

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 9573

INFO AMCONSUL HONG KONG

USLO PEKING

USMISSION OECD PARIS

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY TEHRAN

UNCLAS SECTION 1 OF 2 TOKYO 5247

E.O. 11652: N/A

TAGS: ENR, JA

SUBJECT: MITI UNVEILS ANNUAL FIVE YEAR OIL PLAN

SUMMARY. IN ANNUAL UPDATE OF PETROLEUM SUPPLY PLAN, MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY (MITI) HAS SCHEDULED JAPANESE PETROLEUM IMPORTS DURING JAPAN FY 1975 TO REMAIN AT JFY 1974 LEVEL, AND HAS ESTIMATED AVERAGE ANNUAL GROWTH RATE FOR PERIOD 1975-79 AT 4 PERCENT, DOWN ALMOST 3 PERCENT FROM PREVIOUS FIVE YEAR PERIOD. AS RESULT, CONSTRUCTION OF NEW REFINING CAPACITY WILL BE FROZEN UNTIL 1980. TENTATIVE NATURE OF GNP GROWTH PROJECTIONS UPON WHICH PETROLEUM SUPPLY PLANS ARE BASED, AND DISAGREEMENT BETWEEN PETROLEUM INDUSTRY AND ELECTRIC POWER INDUSTRY OVER PLAN'S OBJECTIVE OF ENCOURAGING TREND TOWARDS USE OF LIGHTER PETROLEUM PRODUCTS, ARE LIKELY TO LEAD TO REVIEW AND UNCLASSIFIED

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POSSIBLE REVISION OF JFY 1976-79 PETROLEUM SUPPLY PLAN THIS SUMMER. END SUMMARY.

1. MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY

ANNOUNCED APRIL 16 ANNUAL UPDATE OF FIVE YEAR PETROLEUM SUPPLY PLAN RUNNING TO END OF JAPAN FISCAL YEAR 1979 (MARCH 31, 1980). UNDER PETROLEUM INDUSTRY LAW MITI IS REQUIRED TO ISSUE ANNUAL PETROLEUM SUPPLY PLAN ON BASIS OF WHICH IT DECIDES WHETHER OR NOT TO APPROVE APPLICATIONS FOR EXPANDING REFINING CAPACITY, AND PROVIDES ADMINISTRATIVE GUIDANCE TO REFINING INDUSTRY ON PRODUCT MIX MOST APPROPRIATE TO MEET OVER-ALL ECONOMIC GOALS.

2. TOTAL SCHEDULED IMPORTS OF CRUDE OIL (CONSTITUTING OVER 99 PERCENT OF SUPPLY) ARE AS FOLLOWS (PERCENTAGES IN PARENTHESES SHOW CHANGE FROM PREVIOUS JFY): 1975-275,181,000 KILOLITERS (0 PERCENT); 1976-268,377,000 KLS. (2 PERCENT); 1977-283,064,000 KLS. (5 PERCENT); 1978-301,562,000 KLS. (7 PERCENT); 1979-318,626,000 KLS. (6 PERCENT). AVERAGE ANNUAL GROWTH RATE FOR PETROLEUM SUPPLY IS THUS PROJECTED AT 4 PERCENT OVER NEXT 5 YEARS, DOWN FROM 6.9 PERCENT ACTUAL GROWTH OVER PREVIOUS FIVE YEAR PERIOD. (NOTE: LATTER AVERAGE INCLUDES JFY 1974 WHICH REGISTERED 3.9 PERCENT DECLINE).

3. ALTHOUGH TOTAL PETROLEUM IMPORTS IN JFY 1975 ARE SCHEDULED TO REMAIN AT ABOUT JFY 1974 LEVELS, NET DOMESTIC DEMAND IS EXPECTED TO RISE 1.9 PERCENT OVER DEPRESSED 1974 LEVELS. INCREASED DEMAND WILL PRESUMABLY BE MET BY RUNNING OFF INVENTORIES, NOW AT ALL TIME HIGH. MITI EXPECTS THAT ANNUAL INCREASE IN NET DEMAND FOR PETROLEUM WILL RISE TO 4.4 PERCENT IN JFY 1976, FALL SLIGHTLY TO 3.7 PERCENT IN 1977, AND REGISTER 4.7 PERCENT IN 1975 AND 6.9 PERCENT IN 1979 AS JAPANESE ECONOMIC ACTIVITY PICKS UP AND THEN ADJUSTS, UNDER MITI GUIDANCE, TO LOWER GROWTH RATES THAN POSTWAR PATTERN.

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4. SINCE NO AUTHORITATIVE PROJECTIONS OF PETROLEUM SUPPLY IN JFY 1979 WERE MADE BEFORE 1973 OIL CRISIS, IT IS DIFFICULT TO DETERMINE TO WHAT EXTENT PROJECTIONS FOR FIVE YEAR PERIOD REPRESENT NET REDUCTIONS FROM PRE-CRISIS EXPECTATIONS. GENERAL FIGURE USED BY MITI SPOKESMEN IS THAT PLAN ENVISAGES 9 MILLION KILOLITERS PER YEAR IN OIL SAVINGS, BUT MITI ENERGY AGENCY OFFICIAL ACKNOWLEDGED TO EMBOFF THAT FIGURE IS ROUGH ONE AT BEST. MITI IS OFFERING FOLLOWING AS INDICATION OF INTENT TO CONSERVE: A) SCHEDULED PETROLEUM SUPPLY FOR JFY 1979 IS AT ABOUT LEVEL SCHEDULED FOR JFY 1976 UNDER PRE-CRISIS PLANS, I.E., THERE WILL BE A TWO YEAR LAG IN SUPPLY INCREASES; B) PLAN INCORPORATES OBJECTIVE OF

BUILDING RESERVE STOCKS TO 90 DAY LEVEL (EXACT AMOUNTS OF OIL REQUIRED, HOWEVER, ARE UNKNOWN, PENDING IEA AGREEMENT ON BASE PERIOD, PRODUCT MIX, ETC.).

5. AS A DIRECT CONSEQUENCE OF DOWNWARD REVISION IN SCHEDULED OIL SUPPLY, MITI PLANS NOT TO APPROVE APPLICATIONS FOR CONSTRUCTION OF NEW REFINING CAPACITY BEFORE 1980. PETROLEUM SUPPLY PLAN ENVISAGES A POST-WAR LOW OPERATING RATIO OF 73 PERCENT FOR JFY 1975, IN ANTICIPATION OF CONTINUING LOW DEMAND. ACCORDING TO INDUSTRY SOURCES, PRESENT REFINING CAPACITY IS 5.7 MILLION B/D AND ADDITIONAL FACILITIES FOR 1.5 MILLION B/D HAVE BEEN APPROVED BUT NOT YET COMPLETED. EVEN ASSUMING A 90 PERCENT OPERATING RATIO, TOTAL EXISTING AND PLANNED

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CAPACITY IS WELL OVER YH6.5 MILLION B/D CAPACITY NECESSARY TO ACCOMMODATE JFY 1979 GOALS.

6. PRESENT PLAN AIMS AT ACCELERATING AND SOLIDIFYING TREND DURING RECENT YEARS WITH SMALLER ENVIRONMENTAL IMPACT. DROP IN PROPORTION OF HEAVY FUEL OILS (UNDER 39 PERCENT FOR JFY 1975) IS

ALSO IN LINE WITH MITI'S ANNOUNCED GOALS FOR GRADUAL RESTRUCTURING OF JAPANESE ECONOMY, BUT SEVERAL INDUSTRY SOURCES (AS WELL AS PUBLIC MEDIA) HAVE EXPRESSED DOUBT AS TO FEASIBILITY OF RESTRUCTURING AT PACE IMPLIED BY PRESENT PLAN. ELECTRIC POWER INDUSTRY, .9439;34, IS REPORTEDLY RELUCTANT TO SWITCH TO DESULFURIZED HEAVY FUEL OIL UNDER CURRENT MARKET CONDITIONS WHEREIN CRUDE IS SIGNIFICANTLY LESS EXPENSIVE THAN THE OTHER HAND, REFINERS ARE UNHAPPY AT BEING ASKED TO CUT OPERATING UNCLASSIFIED

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RATIOS TO 73 PERCENT WHILE CONTINUING TO BE REQUIRED TO INSTALL AND MAINTAIN EXPENSIVE ANTI-POLLUTION EQUIPMENT.

7. IN ADDITION TO CONCERNS OVER PRODUCT MIX, INDUSTRY CONTACTS HAVE EXPRESSED DOUBTS TO EMBASSY ABOUT VALIDITY OF ANTICIPATED ECONOMIC GROWTH RATES ON WHICH PETROLEUM SUPPLY PLAN BASED. FACT THAT RECESSION HAS CONTINUED TO DEEPEN BEYOND EXPECTATIONS WHICH WERE CURRENT IN DECEMBER HAS CAUSED BOTH GOVT AND PRIVATE ANALYSTS TO REVISE THEIR PROJECTIONS DOWNWARD IN RECENT MONTHS. ALTHOUGH OFFICIAL GOJ PROJECTIONS, PUBLISHED LAST DECEMBER, FORESEE A 4.3 PERCENT RISE IN JAPANESE REAL GNP IN JFY 1975, FOLLOWED BY 5 PERCENT IN 1976 AND 7 PERCENT EACH YEAR FROM 1977-1979, A MITI OFFICIAL ACKNOWLEDGED THAT PLAN ACTUALLY ASSUMED 2 PERCENT GNP GROWTH IN JFY 1975 AND EVEN THAT WAS THOUGHT BY MANY TO BE TOO HIGH. IN FACT, HE SAID, FURTHER REVISIONS OF GNP GROWTH PROJECTIONS, AS WELL AS CONTINUATION OF CONTROVERSY BETWEEN ELECTRIC POWER INDUSTRY AND REFINERS, WILL PROBABLY RESULT IN PLAN'S BEING REVISED THIS SUMMER.

8. COMMENT: PETROLEUM SUPPLY PLAN ORDINARILY PROVIDES IMPORTANT INSIGHT INTO OFFICIAL GOJ ECONOMIC PLANNING, BUT UNSETTLING EFFECTS OF OIL CRISIS APPARENTLY HAVE YET TO BE SORTED OUT. AS PRESENTLY FORMULATED PLAN DOES NOT ENJOY CONSENSUS-BASED SUPPORT NECESSARY FOR FULL IMPLEMENTATION. OUR DISCUSSIONS WITH ITS AUTHORS LEADS US TO BELIEVE THAT IT WAS PROBABLY ISSUED RELUCTANTLY TO SATISFY STATUTORY REQUIREMENTS. AS A RESULT, PLAN WILL UNDOUBTEDLY BE REVIEWED AND PROBABLY REVISED THIS SUMMER, TO CONFORM WITH RESULTS OF STUDY NOW BEING CONDUCTED UNDER DIRECTION OF DEPUTY PRIME MINISTER FUKUDA ON NEW JAPANESE LONG TERM ENERGY PLAN. IT SEEMS CLEAR THAT "INTENT TO CONSERVE" CITED PARA 4 ABOVE, IS BY NO MEANS THE SOLE FACTOR IN SCALING DOWN JAPAN'S PROJECTED FUEL NEEDS. CURRENT DEEP RECESSION, JAPAN'S LIKELY PURSUIT OF MORE MODERATE GROWTH PATH, COUPLED WITH SOME FUTURE INDUSTRIAL "RESTRUCTURING" ALSO PLAY MAJOR ROLE. THESE FACTORS IN TURN, HOWEVER, ARE CLOSELY LINKED BOTH IN PUBLIC

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MIND AND IN PLANNERS' CALCULATIONS WITH FUEL PRICES
AND AVAILABILITY.
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Message Attributes

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